

APPENDIX VI. L.  
SWINDOLL, JANZEN, HAWK & LOYD, LLC  
FINANCIAL REPORT CONTROL FORM

Engagement information

Client name City of Nicholson Client no 60639  
Year (period) ended 12/31/10 Due date \_\_\_\_\_  
Partner or manager DSL In-charge accountant CTH

Type of Financial Report

\_\_\_\_ Compiled or reviewed year-end \_\_\_\_\_ Special purpose (describe) \_\_\_\_\_  
\_\_\_\_ Compiled or reviewed interim \_\_\_\_\_  
☒ Audited year-end \_\_\_\_\_ Other (describe) \_\_\_\_\_  
\_\_\_\_ Audited interim \_\_\_\_\_

Has engagement letter been signed by client? ☒ Yes \_\_\_\_\_ No

Tax Return Information

Tax returns to accompany financial report? \_\_\_\_\_ Yes \_\_\_\_\_ No  
Type of return \_\_\_\_\_ Federal \_\_\_\_\_ State \_\_\_\_\_ Other \_\_\_\_\_  
Tax returns due \_\_\_\_\_

Delivery instructions

Name (attention of) \_\_\_\_\_ Delivered by \_\_\_\_\_  
Address \_\_\_\_\_ Mailed \_\_\_\_\_  
Special instructions \_\_\_\_\_

Financial Report Review/Processing

	<u>Initials</u>	<u>Date</u>
1) Preparer	CTH	7/11/11
2) In-charge accountant (AIC) review	CTH	7/11/11
3) Typing department	MS	7-12-11
4) AIC comparing and proofing	CTH	7-18-11
5) Partner review	DSL	9/21/11
6) Technical review	KSL	9/28/11
7) Typing department for final changes	MS	9-28-11
8) AIC approval	CTH	10-4-11
9) Final reading/Partner approval	DSL	10/5/11
10) Duplicate financial report		
11) Assemble financial report		

Report Production

	<u>With Covers</u>		<u>Stapled</u>		
Report copies:	<u>Client</u>	<u>Office</u>	<u>Client</u>	<u>Office</u>	<u>Total</u>
Financial statements only					
Financial statements and additional information	15				
Total					

Other production instructions: \_\_\_\_\_

Report Release Date 10-5-11  
Documentation Completion Date 12-5-11

**CITY OF NICKERSON, KANSAS**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**CITY OF NICKERSON, KANSAS  
CITY OF THE THIRD CLASS  
For The Year Ended December 31, 2010**

Bill Golding, Mayor

**CITY COUNCIL**

Marlene Smith

Nick Neahrng

Skip Russell

Brian Rife

Brad Berridge

Dale Brown

**CITY OFFICERS**

Shari Anderson, Clerk

Stan Juhnke, Attorney

Phyllis Richardson, Treasurer

Larry Bolton, Municipal Judge

April Addias, Police Chief

**CITY OF NICKERSON, KANSAS**  
**FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2010**

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**CITY OF NICKERSON, KANSAS**  
**FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2010**

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SWINDOLL  
JANZEN  
HAWK &  
LOYD, LLC

Certified Public Accountants

Celebrating *75<sup>th</sup>*  
Our Anniversary  
1936 - 2011

B. Carver Swindoll, CPA  
Keith S. Janzen, CPA  
Kyle J. Hawk, CPA, CMAP  
D. Scot Loyd, CPA, CGFM  
Chet L. Buchman, CPA, CVA

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Nickerson, Kansas 67561

We have audited the accompanying financial statements of the City of Nickerson, Kansas, as of and for the year ended December 31, 2010 as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit Guide*. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, or the changes in its financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2010, and its cash receipts and expenditures or disbursements, and budgetary comparisons for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, on our consideration of the City of Nickerson, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Nickerson, Kansas' financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the City of Nickerson, Kansas. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The City of Nickerson, Kansas' responses to the findings identified in our audit are described in the accompanying schedule of findings and question costs and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Swindoll, Janzen, Hawk & Lloyd, LLC*

Certified Public Accountants

September 30, 2011



## CITY OF NICKERSON, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

For the Year Ended December 31, 2010

	<u>Beginning Unencum- bered Cash Balance</u>	<u>Cash Receipts</u>	<u>Expendi- tures</u>	<u>Ending Un- encumbered Cash Balance</u>	<u>Outstanding Encum- brances and Accounts Payable</u>	<u>Ending Cash Balance</u>
GENERAL FUND	\$ 353,211	\$ 567,552	\$ 579,193	\$ 341,570	\$ 7,680	\$ 349,250
SPECIAL REVENUE FUNDS:						
Library Fund	4,625	16,556	18,011	3,170	-	3,170
Recreation Fund	298	3,671	4,000	(31)	-	(31)
Special Highway Fund	35,921	39,436	661	74,696	-	74,696
Diversion Fund	25,332	4,415	-	29,747	-	29,747
Equipment Reserve Fund	92,522	-	11,545	80,977	-	80,977
Capital Improvements Fund	67,931	70,188	3,433	134,686	3,383	138,069
Total Special Revenue Funds	226,629	134,266	37,650	323,245	3,383	326,628
DEBT SERVICE FUNDS:						
Bond and Interest Fund	1,997	72,518	73,624	891	-	891
CAPITAL PROJECT FUND:						
Capital Projects Fund	(204,071)	1,282,769	1,367,797	(289,099)	60,052	(229,047)
PERMANENT FUNDS:						
Cemetery Endowment Fund	13,800	388	11,132	3,056	-	3,056
ENTERPRISE FUNDS:						
Water Utility Fund	55,800	159,325	160,645	54,480	7,754	62,234
Solid Waste Fund	23,081	53,289	62,682	13,688	4,884	18,572
Sewer Utility Fund	264,346	178,605	143,674	299,277	935	300,212
Water Bond Reserve Account Fund	10,600	-	-	10,600	-	10,600
Sewer System Replacement Fund	93,657	-	-	93,657	-	93,657
Total Enterprise Funds	447,484	391,219	367,001	471,702	13,573	485,275
COMPONENT UNITS:						
Nickerson Library Board	14,326	19,407	21,058	12,675	-	12,675
Nickerson Recreation Commission	3,856	6,992	2,438	8,410	-	8,410
Total Component Units	18,182	26,399	23,496	21,085	-	21,085
Total Reporting Entity	\$ 857,232	\$ 2,475,111	\$ 2,459,893	\$ 872,450	\$ 84,688	\$ 957,138
COMPOSITION OF CASH:						
Petty Cash						\$ 250
Checking						856,685
Investments - CDs						79,118
Component Unit						21,085
Total Reporting Entity						\$ 957,138

The notes to the financial statements are an integral part of this statement.



## CITY OF NICKERSON, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

(Budgeted Funds Only)

For the Year Ended December 31, 2010

	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
GENERAL FUND	\$ 708,266	\$ -	\$ 708,266	\$ 579,193	\$ 129,073
SPECIAL REVENUE FUNDS:					
Library Fund	19,000	-	19,000	18,011	989
Recreation Commission Fund	4,000	-	4,000	4,000	-
Special Highway Fund	21,000	-	21,000	661	20,339
Diversion Fund	13,500	-	13,500	-	13,500
Total Special Revenue Funds	57,500	-	57,500	22,672	34,828
DEBT SERVICE FUNDS:					
Bond and Interest Fund	73,636	-	73,636	73,624	12
ENTERPRISE FUNDS:					
Water Utility Fund	251,156	-	251,156	160,645	90,511
Solid Waste Fund	63,000	-	63,000	62,682	318
Sewer Utility Fund	239,983	-	239,983	143,674	96,309
Total Enterprise Funds	554,139	-	554,139	367,001	187,138
Total Reporting Entity	\$ 1,393,541	\$ -	\$ 1,393,541	\$ 1,042,490	\$ 351,051

## CITY OF NICKERSON, KANSAS

GENERAL FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance -</u>
	<u>Actual</u>	<u>Budget</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
Cash Receipts			
Taxes -			
Ad valorem property tax	\$ 188,787	\$ 200,567	\$ (11,780)
Back tax collections	12,977	4,000	8,977
Motor vehicle tax	46,540	51,543	(5,003)
Recreational vehicle tax	990	1,125	(135)
16/20M vehicle tax	-	451	(451)
Local sales tax	122,071	125,000	(2,929)
Total Taxes	371,365	382,686	(11,321)
Licenses and Permits -			
Franchise taxes	78,955	64,000	14,955
Other	2,871	1,400	1,471
Total Licenses and Permits	81,826	65,400	16,426
Charges for Services -			
Cemetery services	2,075	2,500	(425)
Other	-	1,000	(1,000)
Total Charges for Services	2,075	3,500	(1,425)
Fines, Forfeitures and Penalties -			
Police fines	27,290	40,000	(12,710)
Other -			
Dog licenses	1,034	3,340	(2,306)
Reimbursements	74,345	10,000	64,345
Miscellaneous	170	500	(330)
Interest income	9,447	13,000	(3,553)
Total Other	84,996	26,840	58,156
Total Cash Receipts	567,552	\$ 518,426	\$ 49,126

## CITY OF NICKERSON, KANSAS

GENERAL FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Budget</u>	
Expenditures			
General Administrative -			
Personal services	\$ 22,528	\$ 23,500	\$ 972
Contractual services	52,788	71,750	18,962
Commodities	6,877	10,050	3,173
Capital outlay	20	50,200	50,180
Contingencies	-	15,000	15,000
Miscellaneous	-	25,000	25,000
Total General Administrative	<u>82,213</u>	<u>195,500</u>	<u>113,287</u>
Law Enforcement -			
Personal services	101,843	135,000	33,157
Contractual services	7,506	12,300	4,794
Commodities	8,035	36,025	27,990
Miscellaneous	<u>9,953</u>	<u>-</u>	<u>(9,953)</u>
Total Law Enforcement	<u>127,337</u>	<u>183,325</u>	<u>55,988</u>
Street -			
Personal services	83,929	56,032	(27,897)
Contractual services	32,121	29,476	(2,645)
Commodities	42,887	24,875	(18,012)
Capital outlay	673	12,000	11,327
Utilities	<u>14,997</u>	<u>19,833</u>	<u>4,836</u>
Total Street	<u>174,607</u>	<u>142,216</u>	<u>(32,391)</u>
Court -			
Personal services	6,395	6,300	(95)
Contractual services	2,190	1,500	(690)
Commodities	<u>5,991</u>	<u>7,000</u>	<u>1,009</u>
Total Court	<u>14,576</u>	<u>14,800</u>	<u>224</u>
EMTs -			
Personal services	11,699	10,000	(1,699)
Contractual services	6,151	8,625	2,474
Commodities	2,804	1,300	(1,504)
Capital outlay	<u>-</u>	<u>9,500</u>	<u>9,500</u>
Total EMTs	<u>20,654</u>	<u>29,425</u>	<u>8,771</u>

## CITY OF NICKERSON, KANSAS

GENERAL FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Budget</u>	
Expenditures (cont.)			
City Treasurer -			
Personal services	\$ 4,453	\$ 3,150	\$ (1,303)
Contractual services	<u>1,007</u>	<u>50</u>	<u>(957)</u>
Total City Treasurer	<u>5,460</u>	<u>3,200</u>	<u>(2,260)</u>
Council -			
Contractual services	<u>5,102</u>	<u>5,200</u>	<u>98</u>
Planning commission -			
Commodities	<u>-</u>	<u>600</u>	<u>600</u>
Employee Benefits -			
Health insurance	107,477	84,000	(23,477)
Unemployment insurance	2,060	4,000	1,940
KPERS	17,729	20,000	2,271
Social security	<u>21,978</u>	<u>26,000</u>	<u>4,022</u>
Total Employee Benefits	<u>149,244</u>	<u>134,000</u>	<u>(15,244)</u>
Total Expenditures	<u>579,193</u>	<u>\$ 708,266</u>	<u>\$ 129,073</u>
Receipts Over (Under) Expenditures	(11,641)		
Unencumbered Cash, Beginning	<u>353,211</u>		
Unencumbered Cash, Ending	<u>\$ 341,570</u>		

## CITY OF NICKERSON, KANSAS

SPECIAL REVENUE FUNDLIBRARY FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Budget</u>	
Cash Receipts			
Ad valorem property tax	\$ 12,766	\$ 13,647	\$ (881)
Back tax collections	829	250	579
Motor vehicle tax	2,898	3,274	(376)
Recreational vehicle tax	63	71	(8)
16/20M vehicle tax	-	29	(29)
Total Cash Receipts	<u>16,556</u>	<u>\$ 17,271</u>	<u>\$ (715)</u>
Expenditures			
Library appropriations	17,000	\$ 17,000	\$ -
Library benefits	<u>1,011</u>	<u>2,000</u>	<u>989</u>
Total Expenditures	<u>18,011</u>	<u>\$ 19,000</u>	<u>\$ 989</u>
Receipts Over (Under) Expenditures	(1,455)		
Unencumbered Cash, Beginning	<u>4,625</u>		
Unencumbered Cash, Ending	<u>\$ 3,170</u>		

## CITY OF NICKERSON, KANSAS

SPECIAL REVENUE FUNDRECREATION FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Budget</u>	
Cash Receipts			
Ad valorem tax	\$ 2,791	\$ 2,976	\$ (185)
Delinquent tax	190	75	115
Motor vehicle tax	685	773	(88)
Recreational vehicle tax	5	17	(12)
16/20M vehicle tax	-	7	(7)
Total Receipts	<u>3,671</u>	<u>\$ 3,848</u>	<u>\$ (177)</u>
Expenditures			
Contractual services	<u>4,000</u>	<u>\$ 4,000</u>	<u>\$ -</u>
Receipts Over (Under) Expenditures	(329)		
Unencumbered Cash, Beginning	<u>298</u>		
Unencumbered Cash, Ending	<u>\$ (31)</u>		



## CITY OF NICKERSON, KANSAS

SPECIAL REVENUE FUNDSPECIAL HIGHWAY FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Budget</u>	
Cash Receipts			
Gasoline taxes - county	\$ 4,695	\$ 4,550	\$ 145
Gasoline taxes - state	30,766	33,230	(2,464)
Miscellaneous	3,975	-	3,975
	<u>39,436</u>	<u>\$ 37,780</u>	<u>\$ 1,656</u>
Total Cash Receipts			
Expenditures			
Personal services	661	\$ 4,500	\$ 3,839
Contractual services	-	8,000	8,000
Commodities	-	8,500	8,500
	<u>661</u>	<u>\$ 21,000</u>	<u>\$ 20,339</u>
Total Expenditures			
Receipts Over (Under) Expenditures	38,775		
Unencumbered Cash, Beginning	35,921		
Unencumbered Cash, Ending	<u>\$ 74,696</u>		

## CITY OF NICKERSON, KANSAS

SPECIAL REVENUE FUNDDIVERSION FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Budget</u>	
Cash Receipts			
Diversion fees	<u>\$ 4,415</u>	<u>\$ 10,000</u>	<u>\$ (5,585)</u>
Expenditures			
Commodities	-	\$ 11,000	11,000
Employee Appreciation	-	<u>2,500</u>	<u>2,500</u>
Total Expenditures	<u>-</u>	<u>\$ 13,500</u>	<u>\$ 13,500</u>
Receipts Over (Under) Expenditures	4,415		
Unencumbered Cash, Beginning	<u>25,332</u>		
Unencumbered Cash, Ending	<u>\$ 29,747</u>		

## CITY OF NICKERSON, KANSAS

SPECIAL REVENUE FUNDSSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - NON-BUDGETED FUND

For the Year Ended December 31, 2010

	<u>Equipment Reserve</u>	<u>Capital Improvements</u>
Cash Receipts		
Miscellaneous	\$ -	\$ 70,188
Expenditures		
Capital outlay	<u>11,545</u>	<u>3,433</u>
Receipts Over (Under) Expenditures	(11,545)	66,755
Unencumbered Cash, Beginning	<u>92,522</u>	<u>67,931</u>
Unencumbered Cash, Ending	<u>\$ 80,977</u>	<u>\$ 134,686</u>

## CITY OF NICKERSON, KANSAS

DEBT SERVICE FUNDSBOND AND INTEREST FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Variance - Favorable (Unfavorable)</u>
Cash Receipts			
Ad valorem tax	\$ 21,834	\$ 23,404	\$ (1,570)
Delinquent tax	1,125	-	1,125
Motor vehicle tax	3,465	3,907	(442)
Recreational vehicle tax	78	85	(7)
16/20M vehicle tax	-	34	(34)
Transfer from Water Utility Fund	<u>46,016</u>	<u>46,016</u>	<u>-</u>
Total Receipts	<u>72,518</u>	<u>\$ 73,446</u>	<u>\$ (928)</u>
Expenditures			
Principal	45,000	\$ 45,000	\$ -
Interest	28,616	28,616	-
Commission & postage	<u>8</u>	<u>20</u>	<u>12</u>
Total Expenditures	<u>73,624</u>	<u>\$ 73,636</u>	<u>\$ 12</u>
Receipts Over (Under) Expenditures	(1,106)		
Unencumbered Cash, Beginning	<u>1,997</u>		
Unencumbered Cash, Ending	<u>\$ 891</u>		

## CITY OF NICKERSON, KANSAS

CAPITAL PROJECT FUNDSCAPITAL PROJECTS FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - NON-BUDGETED FUND

For the Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts	
KDHE loan advance	<u>\$ 1,282,769</u>
Expenditures	
Construction	1,291,797
Loan payments	<u>76,000</u>
Total Expenditures	<u>1,367,797</u>
Receipts Over (Under) Expenditures	(85,028)
Unencumbered Cash, Beginning	<u>(204,071)</u>
Unencumbered Cash, Ending	<u>\$ (289,099)</u>

## CITY OF NICKERSON, KANSAS

PERMANENT FUNDCEMETERY ENDOWMENT FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - NON-BUDGETED FUND

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	<u>Actual</u>
Cash Receipts	
Interest income	\$ 388
Expenditures	
Contractual services	<u>11,132</u>
Receipts Over (Under) Expenditures	(10,744)
Unencumbered Cash, Beginning	<u>13,800</u>
Unencumbered Cash, Ending	<u>\$ 3,056</u>



## CITY OF NICKERSON, KANSAS

ENTERPRISE FUNDWATER UTILITY FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Budget</u>	
Cash Receipts			
Sale of water	\$ 159,268	\$ 213,000	\$ (53,732)
Interest income	24	20	4
Miscellaneous	33	3,500	(3,467)
Total Cash Receipts	<u>159,325</u>	<u>\$ 216,520</u>	<u>\$ (57,195)</u>
Expenditures			
Personal services	34,674	\$ 56,032	\$ 21,358
Contractual services	15,901	33,761	17,860
Commodities	29,899	34,135	4,236
Capital outlay	-	15,000	15,000
Utilities	11,143	12,961	1,818
KDHE loan payment	23,012	-	(23,012)
Transfer to Equipment Reserve Fund	-	22,910	22,910
Transfer to Water Principal & Interest Fund	-	30,341	30,341
Transfer to Bond and Interest Fund	46,016	46,016	-
Total Expenditures	<u>160,645</u>	<u>\$ 251,156</u>	<u>\$ 90,511</u>
Receipts Over (Under) Expenditures	(1,320)		
Unencumbered Cash, Beginning	<u>55,800</u>		
Unencumbered Cash, Ending	<u>\$ 54,480</u>		

## CITY OF NICKERSON, KANSAS

ENTERPRISE FUNDSOLID WASTE FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Budget</u>	
Cash Receipts			
Trash service fees	\$ 53,289	\$ <u>67,000</u>	\$ <u>(13,711)</u>
Expenditures			
Contractual services	<u>62,682</u>	\$ <u>63,000</u>	\$ <u>318</u>
Receipts Over (Under) Expenditures	(9,393)		
Unencumbered Cash, Beginning	<u>23,081</u>		
Unencumbered Cash, Ending	\$ <u>13,688</u>		

## CITY OF NICKERSON, KANSAS

ENTERPRISE FUNDSEWER UTILITY FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

	<u>2010</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Variance - Favorable (Unfavorable)</u>
Cash Receipts			
Fees collected	\$ 178,605	\$ 180,000	\$ (1,395)
Expenditures			
Personal services	27,630	\$ 56,032	\$ 28,402
Contractual services	11,071	13,251	2,180
Commodities	12,607	13,600	993
Capital outlay	8,816	-	(8,816)
Utilities	7,550	6,200	(1,350)
KDHE loan repayment	76,000	150,900	74,900
Total Expenditures	<u>143,674</u>	<u>\$ 239,983</u>	<u>\$ 96,309</u>
Receipts Over (Under) Expenditures	34,931		
Unencumbered Cash, Beginning	<u>264,346</u>		
Unencumbered Cash, Ending	<u>\$ 299,277</u>		

## CITY OF NICKERSON, KANSAS

ENTERPRISE FUNDSSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - NON-BUDGETED FUNDS

For the Year Ended December 31, 2010

	<u>Water Bond Reserve Account</u>	<u>Sewer System Replacement</u>
Cash Receipts	\$ -	\$ -
Expenditures	<u>-</u>	<u>-</u>
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	<u>10,600</u>	<u>93,657</u>
Unencumbered Cash, Ending	<u>\$ 10,600</u>	<u>\$ 93,657</u>

CITY OF NICKERSON, KANSAS

COMPONENT UNIT

LIBRARY BOARD

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL  
For the Year Ended December 31, 2010

Cash Receipts	
City of Nickerson	\$ 17,000
Grants	2,108
Fines and donations	<u>299</u>
Total Cash Receipts	<u>19,407</u>
Expenditures	
Books and periodicals	729
Payroll	12,822
Payroll taxes	2,669
Supplies and materials	718
Utilities	<u>4,120</u>
Total Expenditures	<u>21,058</u>
Receipts Over (Under) Expenditures	(1,651)
Unencumbered Cash, Beginning	<u>14,326</u>
Unencumbered Cash, Ending	<u>\$ 12,675</u>

**CITY OF NICKERSON, KANSAS**

**COMPONENT UNIT**

**RECREATION COMMISSION**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL**  
**For the Year Ended December 31, 2010**

Cash Receipts	
City of Nickerson	\$ 4,000
Fees, etc.	1,435
Miscellaneous	1,085
Concessions	<u>472</u>
Total Cash Receipts	<u>6,992</u>
Expenditures	
Equipment	120
Payroll	250
Concessions	313
Repairs	833
Program costs	679
Miscellaneous	<u>243</u>
Total Expenditures	<u>2,438</u>
Receipts Over (Under) Expenditures	4,554
Unencumbered Cash, Beginning	<u>3,856</u>
Unencumbered Cash, Ending	<u>\$ 8,410</u>



**CITY OF NICKERSON, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***(a) Reporting Entity***

The City of Nickerson is a municipal corporation governed by an elected mayor and an elected six-member council. These financial statements present the City of Nickerson (the primary government) and its component unit. The component unit is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

*Discretely Present Component Unit.* The component unit section of the financial statements includes the financial data of the discretely presented component units. These component units are reported separately to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City.

Library. The City of Nickerson Library Board operates the City's public library. It is not a separate taxing entity under Kansas Statutes, and the City levies taxes for the library operations, which represent a significant portion of its total revenues. Complete financial records for the Library Board may be reviewed at the administrative offices of the entity at 23 North Nickerson Street, KS 67561.

Recreation Commission. The City of Nickerson Recreation Commission Board operates the City's recreation commission. The recreation commission oversees recreation activities and operates as a separate governing body, but the City levies the taxes for the recreation commission, and the recreation commission has only the powers granted by statute, K.S.A 12-1928. Complete financial records for the Library Board may be reviewed at the administrative offices of the City at 15 North Nickerson Street, KS 67561.

***(b) Basis of Presentation - Fund Accounting***

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The City has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws regulations, or other restrictions. The City uses the following fund types:

**Governmental Fund Types**

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

**General Fund** - This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. This fund is charged with all costs of operating the government for which a separate fund has not been established.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

### ***(b) Basis of Presentation - Fund Accounting (cont.)***

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources other than special assessments, private purpose trust or major capital projects that are legally restricted to expenditures for specified purposes.

Capital Project Funds - These funds account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by Proprietary and Permanent Funds.

Debt Service funds – These funds account for the accumulation of resources for and the payment of, interest and principal on general long-term debt.

Permanent funds – These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for the purpose that support the government's programs.

#### **Proprietary Fund Type**

These funds account for operations that are self-supporting through user charges. The funds included in this category are Enterprise Funds.

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

### ***(c) Statutory Basis of Accounting***

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

### ***(d) Departure from Accounting Principles Generally Accepted in the United States of America***

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

### ***(e) Budgetary Information***

Kansas statutes require that an annual operating budget be legally adopted for the General Fund, Special Revenue Funds (unless specifically exempted by statute), Debt Service Funds and Enterprise Funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1.
2. Publication in local newspaper on or before August 5 of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for 2010.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances with disbursements being adjusted for prior year's accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budget expenditure authority lapses at year end.

A legal operating budget is not required for Capital Project Funds, Permanent Funds, and the following Special Revenue Funds; Equipment Reserve and Capital Improvements.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

### ***(f) Special Assessments***

Projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund.

### ***(g) Compensated Absences***

Vacation time is earned and vested and must be used within the following calendar year. The sick leave policy for the City permits employees to accumulate a maximum of 60 days sick leave. Employees are not paid unused sick leave upon termination.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### *(h) Use of Estimates*

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

## 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### *Compliance with Kansas Statutes*

Expenditures in Excess of Cash Violation – K.S.A. 10-1113, 10-1121

Recreation - cash balance

\$            (31)

## 3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2010.

At December 31, 2010, the City's carrying amount of deposits was \$936,049 and the bank balance was \$1,113,799. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance and \$863,799 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

At December 31, 2010, the carrying amount of the component unit's deposits, including certificates of deposit was \$21,085. The bank balance was \$21,085. Of the bank balance, all was covered by FDIC insurance.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

#### 4. LONG-TERM DEBT

Principal payments are due annually for general obligation bonds on September 1 for the library 1994 series and October 1 for the 2002 water tower series. Interest payments are due semi-annually on March 1 and September 1 for the 1994 series, and April 1 and October 1 for 2002 series.

Changes in long-term liabilities for the City for the year ended December 31, 2010, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest and fees Paid
General Obligation Bonds:									
Series 1994 Library	6%	08/01/94	\$ 275,000	09/01/14	\$ 105,000	\$ -	\$ 20,000	\$ 85,000	\$ 6,300
Series 2002 Water Tower	5.375%	04/15/02	552,000	10/01/22	430,000	-	25,000	405,000	22,316
Kansas Water Pollution Control Revolving Loan									
	2.72%	07/23/09	4,978,000	09/01/27	1,489,524	1,282,769	111,371	2,660,922	40,629
KDHE Loan									
	3.04%	11/06/08	332,289	08/01/28	320,422	-	12,253	308,169	10,759
Total Indebtedness					2,344,946	1,282,769	168,624	3,459,091	80,004
Compensated Absences					11,681	-	5,025	6,656	-
Total Long-Term Liabilities					\$ 2,356,627	\$ 1,282,769	\$ 173,649	\$ 3,465,747	\$ 80,004

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Year								
						2016 to 2020	2021 to 2025	2026 to 2028	
	2011	2012	2013	2014	2015				Total
Principal:									
General Obligation Bonds:									
Series 1994 Library	\$ 20,000	\$ 20,000	\$ 20,000	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ 85,000
Series 2002 Water Tower	25,000	25,000	30,000	30,000	30,000	180,000	85,000	-	405,000
Kansas Water Pollution Control Revolving Loan	18,864	137,000	259,970	267,089	274,404	1,488,937	1,704,285	748,844	4,899,392
KDHE Loan	12,672	13,105	13,553	14,016	14,496	80,259	94,949	65,120	308,169
Total Principal	76,536	195,105	323,523	336,106	318,899	1,749,196	1,884,234	813,963	5,697,562
Interest:									
General Obligation Bonds:									
Series 1994 Library	5,100	3,900	2,700	1,500	-	-	-	-	13,200
Series 2002 Water Tower	21,016	19,716	18,416	16,991	15,521	52,789	6,988	-	151,437
Kansas Water Pollution Control Revolving Loan	120,899	120,430	115,571	109,106	102,464	406,446	210,591	23,277	1,208,783
KDHE Loan	9,273	8,884	8,483	8,067	7,637	31,209	18,036	3,513	95,102
Total Interest	156,288	152,931	145,170	135,664	125,622	490,444	235,614	26,790	1,468,522
Total Principal and Interest	\$ 232,824	\$ 348,035	\$ 468,693	\$ 471,770	\$ 444,521	\$ 2,239,640	\$ 2,119,848	\$ 840,753	\$ 7,166,084

#### 4. LONG-TERM DEBT (CONT.)

Included in KDHE loans above are principal and interest payments on the KDHE credit lines. The amounts assume the City borrows the entire \$4,978,000, under the loan agreement. The wastewater notes are expected to be refunded with a 40 year loan from Rural Development after completion of the wastewater treatment project.

#### 5. CAPITAL PROJECTS

The City is required by federal and state agencies to upgrade its wastewater system. Costs for this project which have not been finalized approximate \$5,000,000. The project is to be funded with a combination of long-term debt and grants if available. The City's ultimate share of the costs will be determined at a later date. At year-end, capital project authorizations with approved change orders compared with expenditures from inceptions are as follows:

	Expenditures	Project
	to Date 12/31/10	Authorization
Wastewater treatment system	\$ 2,956,310	\$ 4,978,000

#### 6. PENSION COSTS AND EMPLOYEE BENEFITS

##### (a) *Defined Benefit Pension Plan*

**Plan Description.** The City contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100; Topeka, KS 66603-3869) or by calling 1-888-275-5737.

**Funding Policy.** K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2010 is 7.14%. The City employer contributions to KPERS for the years ending December 31, 2010, 2009, and 2008 were \$14,045, \$13,817, and \$11,803, respectively, equal to the required contributions for each year.

##### (b) *Other Employee Benefits*

Vacation - Vacation leave is earned beginning with the completion of the first full calendar year of employment for full-time employees, including the training period, according to the following schedule:

<u>Years of Service</u>	<u>Per Year</u>
1 year of service	5 working days
2 to 7 years of service	10 working days
8 plus years of service	15 working days

## 6. PENSION COSTS AND EMPLOYEE BENEFITS (CONT.)

All vacations must be taken in the employment year earned and may not be accumulated year to year. Unused vacation time during the anniversary year is lost. No employee may choose to receive pay instead of vacation. Any employee who resigns or is discharged for unsatisfactory performance or is laid off will receive pay for the unused vacation earned. Any employee discharged for dishonesty forfeits all vacation pay. Any retiring employee is to be paid all earned and unused vacation.

Part-time, temporary, and seasonal employees are not eligible for paid vacation leave.

Sick leave – Employees receive eight hours of sick leave for each month of employment with a maximum accumulation of 60 working days. Accrued sick leave credits are cancelled without compensation upon either the voluntary or involuntary termination of employment.

### ***(c) Other Post Employment Benefits***

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

## 7. INTERFUND TRANSFERS

A summary of operating transfers by fund are as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
Water Utility Fund	Bond and Interest Fund	City Ordinance	\$ <u>46,016</u>

## 8. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss; torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2009 to 2010 and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations the City is a party to various claims, legal actions and complaints. It is the opinion of the City's management and legal counsel that these matters are not anticipated to have a material financial impact on the City.





SWINDOLL  
JANZEN  
HAWK &  
LOYD, LLC

Certified Public Accountants

*Celebrating* **75<sup>th</sup>** *Anniversary*  
1936 - 2011

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Keith S. Janzen, CPA  
Kyle J. Hawk, CPA, CMAP  
D. Scot Loyd, CPA, CGFM  
Chet L. Buchman, CPA, CVA

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and City Council  
City of Nickerson, Kansas 67561

We have audited the financial statements of the City of Nickerson, Kansas and its discretely presented component unit as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit Guide*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Nickerson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Nickerson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Nickerson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses and are listed as reference numbers 10-1.


A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies and are listed as reference numbers 10-2, 10-3, and 10-4.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated September 30, 2011.

This report is intended solely for the information and use of management, City Council, federal awarding agencies, pass-through entities and for filing with the Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

  
Swindoll, Janzen, Hawk, & Loyd, LLC

September 30, 2011



SWINDOLL  
JANZEN  
HAWK &  
LOYD, LLC

Certified Public Accountants

Celebrating **75<sup>th</sup>**  
Our Anniversary  
1936 - 2011

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council  
City of Nickerson, Kansas 67561

### **Compliance**

We have audited the compliance of City of Nickerson, Kansas with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Nickerson's major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the *Kansas Municipal Audit Guide*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Nickerson, Kansas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

### **Internal Control Over Compliance**

Management of the City of Nickerson, Kansas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

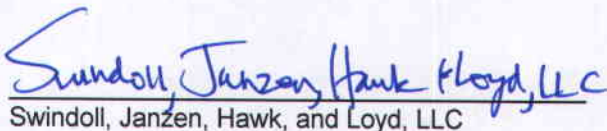
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-1 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-2, 10-3, and 10-4 to be significant deficiencies.

The City of Nickerson's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Nickerson's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, federal awarding agencies, pass-through entities and for filing with the Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

  
Swindoll, Janzen, Hawk, and Loyd, LLC

September 30, 2011

## CITY OF NICKERSON, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2010

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>
<u>Environmental Protection Agency</u>				
Passed through State Department of Health and Environment				
Kansas Water Pollution Control Revolving Fund	66.458	C20 1636 01	\$ 778,192	<u>\$ 778,192</u>
Total Expenditures of Federal Awards				<u>\$ 778,192</u>

Note 1 - The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Nickerson, Kansas and is presented using the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, the same as the financial statements accompanying this schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.



**CITY OF NICKERSON, KANSAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2010**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Nickerson, Kansas.
2. One material weakness and three significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Nickerson, Kansas were disclosed during the audit.
4. There were no significant deficiencies in internal control over major federal award programs were reported in the Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expressed an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs include:

Environmental Protection Agency:	<u>CFDA No.</u>
Capitalization Grants for Clean Water State	66.458
Revolving Funds	
8. The threshold for distinguishing Types A and B program was \$300,000.
9. The City of Nickerson, Kansas was determined not to be a low-risk auditee.

CITY OF NICKERSON, KANSAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2010**

**FINDINGS—FINANCIAL STATEMENTS AUDIT**

**10-1 MATERIAL WEAKNESS – SEGREGATION OF DUTIES OVER UTILITIES AND MUNICIPAL COURT**

Condition: The City's Utility/Municipal Court Clerk is responsible for all functions relating to the utility and municipal court billing and collections process, including billing, collection of receipts, posting of receipts to accounts receivable, preparing the deposit and taking deposit to the bank.

Criteria: No single individual should be able to:

- a) *authorize a transaction;*
- b) *record the transaction in the books of account; and*
- c) *ensure custody of the asset resulting from the transaction, including the receipt/custody of cash.*

Effect: Lack of segregation of duties aids in the possibility that errors and irregularities whether caused by fraud or human error will not be detected.

Recommendation: We recommend that management and the City Council review the processes of the utility and municipal court system to determine how best to implement segregation of duties were possible and to implement compensating controls to strengthen internal controls over the utility and municipal court system.

Management Response: Management and the City Council agree with this finding. They have put into place some segregation of duties and the City Council has begun reviewing reports and utility billings to collections reconciliations.



**CITY OF NICKERSON, KANSAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2010**

**10-2 SIGNIFICANT DEFICIENCY - FINANCIAL STATEMENT REPORTING**

Condition: Our firm has been asked to prepare the financial statements and other supplemental information for the City; however, our firm cannot be considered part of the internal control structure of the City in regard to the preparation of the financial statements and other supplemental information.

Criteria: The City prepares its financial statements and other supplemental information in accordance with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, in accordance with the reporting and formatting requirements displayed in the *Kansas Municipal Audit Guide* (KMAG).

Effect: We consider this condition related to external financial statement and other supplemental information preparation to be a significant deficiency under the standards established by the American Institute of Certified Public Accountants.

Recommendation: To strengthen internal control over financial statement and other supplemental information preparation, we recommend:

- Obtain a current copy of the Kansas Municipal Audit Guide (KMAG),
- Obtain a report check list for KMAG financial statements,
- Participate in a training session on financial statement and other supplemental information preparation and review, and
- Adopt a policy that annual financial statements and other supplemental information will be reviewed prior to being subjected to audit.

Management  
Response:

Management and the City Council agrees with this finding. They will work on implementing the above recommendations.

**CITY OF NICKERSON, KANSAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2010**

**10-3 SIGNIFICANT DEFICIENCY – CASH SUMMARY & BANK RECONCILIATION**

Condition: The cash summary report did not reconcile to the bank and investment accounts.

Criteria: Part of a good internal control system is to have the internal books reconcile to the bank accounts.

Effect: Lack of a reconciled bank account aids in the possibility that errors and irregularities whether caused by fraud or human error will not be detected.

Recommendation: We recommend that the cash summary report be reconciled to the bank and investment accounts on a monthly basis.

Management Response: Management and the City Council agrees with this finding. They have starting reconciling the cash summary report with the bank and investment accounts.

**10-4 SIGNIFICANT DEFICIENCY – SEGREGATION OF DUTIES OVER PAYROLL**

Condition: The City Clerk is responsible for all aspects of payroll processing, including the creation and maintenance of the employee master files.

Criteria: Duties associated with the employee master files should be separate from the duties associated with the regular payroll processing. This segregation of duties is a basic concept of good internal control.

Effect: The ability of the payroll department to have access to the employee master files increases the risk that an error or irregularity could occur and go undetected.

Recommendation: We recommend that compensating controls be put into place to strengthen internal controls in the payroll processes.

Management Response: Management and the City Council agrees with this finding. They will review the process and determine what controls to implement.

**CITY OF NICKERSON, KANSAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2010**

**C. FINDINGS AND QUESTIONED COSTS--MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There were no reportable findings.

**CITY OF NICKERSON, KANSAS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**For the Year Ended December 31, 2010**

There were no reportable findings for the year ended December 31, 2009.